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TO RICHARD PEN A
HFACPeru: Political Assessment

The popularity of the incumbent administration is in sharp decline owing to a widening insurgency and persistent economic problems. President Belaunde is preoccupied with finishing his term and handing over power to a democratically-elected successor next July and is unlikely to implement any major, new policy initiatives. [REDACTED]

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Relations between the President and the armed forces have improved somewhat over the last three months. Government approval of a long-delayed purchase of fighter aircraft and a recent decision to grant security forces greater authority in the counterinsurgency struggle were both well-received. Nonetheless, the military is frustrated because of its inability to stem growing violence by the Sendero Luminoso guerrilla movement. Some officers are blaming the administration for allegedly failing to grant the necessary funding or political support to defeat the insurgents. [REDACTED]

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Major financial problems, however, leave Belaunde little maneuvering room. The administration has publicly admitted that it will be unable to meet its IMF performance targets this year, and strong domestic pressure to relax austerity measures prior to the 1985 elections will further limit the chances for a reconciliation with the Fund. This, in turn, will jeopardize finalizing the 1984-85 debt refinancing package, cut access to foreign credit, and force US banks to begin placing Peruvian loans in nonperforming categories. [REDACTED]

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Belaunde's prospects for completing his term probably will increase this fall, however, as the campaign for the presidential election next April begins in earnest. The attention of his civilian critics has already begun to shift toward the electoral preparations. Belaunde's performance has seriously damaged the prospects for his party, and Alan Garcia, the 34-year old presidential candidate of the center-left

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American Popular Revolutionary Alliance (APRA), is the odds-on favorite to become Peru's next president. Although the military has prevented APRA from taking power in the past, it now seems willing to accept a victory by that party. Garcia has carefully cultivated senior military officials, and he and other APRA leaders are avoiding radical campaign rhetoric that might alienate the military. At this point, the armed forces probably would intervene only in the unlikely event that the Marxist United Left coalition appeared to be on the way to a victory.

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